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IPG Takes Stake in Facebook

Advertising company IPG also plans ads on the college social network.

June 20, 2006

Facebook said Tuesday it signed a deal with Interpublic Group that gives the advertising holding company a 0.5 percent stake in the online social network for an undisclosed investment. IPG will also buy \$10 million in advertising, the company said.

The ad spend and stake were not an exchange, though both aspects were included in the deal, according to Melanie Deitch, director of marketing for the college-oriented site. She said New York City-based IPG paid for the shares of Facebook with cash.

She dismissed reports that the deal gave Facebook a valuation of \$2 billion. When the Palo Alto, California-based company took \$25 million in April, sources told RedHerring.com it was valued at \$500 million to \$600 million (see [Facebook Gets Another \\$25M](#)).

IPG spokesperson Philippe Krakowsky would not elaborate on the terms of what he called a "strategic partnership," but confirmed the two companies have been in "serious talks."

"We're looking at it as a platform from which to learn about and experiment with the medium—social networks—and the demographic," Mr. Krakowsky said.

Awkward, but Appropriate

Though she admitted the two companies were very different in both size and age, Ms. Deitch contended, "the real value and fit that we see in working with IPG is we're two companies that share very similar values and cultures."

That's a bit of a stretch. Facebook is a startup formed in 2004 with \$28.2 million in venture and angel financing. IPG is a public company with a market cap of \$3.75 billion.

The deal "makes total sense," said Forrester analyst Charlene Li, though it is a bit unusual. Social networks have millions of users spending many minutes per day on their sites, but it's well-known

'There are two ways to make money if you're a media company. You can take advertising or you can charge for it, and there's no way Facebook users are going to pay.'
-Charlene Li,
Forrester

- ADVERTISEMENT -

the sites are still figuring out how to make money. Traditional models based on impressions and clicks don't apply (see [The MySpace Wannabes](#)).

Facebook has more than 7 million members, most of them American college students, and has recently built its own internal advertising team. The advertising deal with IPG will not be exclusive, said Ms. Deitch.

"There are two ways to make money if you're a media company," said Ms. Li. "You can take advertising or you can charge for it, and there's no way Facebook users are going to pay."

However, Ms. Li expressed skepticism that a "huge holding company" would know what to do with the Facebook phenomenon, saying "just slapping up banners isn't going to do it."

MySpace, the dominant U.S. social network with nearly 80 million users, has experimented with creating profiles for its advertisers, for instance the "Wendy's Square" for the fast-food restaurant, or "Yaris," to hype the Toyota model of that name.

MySpace members interact with the brand profiles as they would real-life people, participating in promotions through the advertisers' profile pages. The Wendy's Square and Yaris profiles have 87,000 and 52,000 "friends," respectively.

However, Facebook prides itself in connecting its users with their real identities. For example, it requires an email address ending in .edu for college students to register. It seems unlikely it will follow MySpace's advertiser profile lead.

Contact the writer: LGannes@RedHerring.com

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